

STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

UNITED DENTAL CARE OF UTAH, INC.

of

Salt Lake City, Utah

as of

December 31, 2003



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April 5, 2005

Honorable D. Kent Michie
Insurance Commissioner
State of Utah
3110 State Office Building
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2003, has been made of the financial condition and business affairs of:

UNITED DENTAL CARE OF UTAH, INC.
Salt Lake City, Utah

a limited health plan, hereinafter referred to in this report as the Organization, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The current examination covered the period from October 1, 2000, through December 31, 2003, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Certificates of representation attesting to the Organization's ownership of all assets and to the nonexistence of unrecorded liabilities were signed by and received from the Organization's management at the initiation and conclusion of the examination.

Examination Procedures Employed

The examination included a general review and analysis of the Organization's operations, the manner in which its business was conducted, and a determination of its financial condition as of December 31, 2003. The examination was conducted in accordance with generally accepted standards and procedures of regulatory authorities relating to such examinations.

Status of Adverse Findings and Other Significant Regulatory Information Disclosed in Previous Examination

Findings identified in the "Summary" section of the prior examination report have been addressed during the examination period or received further disclosure in the relevant section of this report.

HISTORY

The Organization was organized on March 24, 1986, as U.S. Dental Plan, Inc., a Utah corporation. Authority to operate in the State of Utah as a limited health plan was granted by the Utah Insurance Department on October 4, 1995.

The corporation was authorized to issue 25,000 shares of common stock with a par value of \$10 per share. All authorized shares were issued to an affiliate and sole shareholder, U.S. Dental Management Inc., an Arizona corporation.

Effective November 27, 1995, United Dental Care, Inc. ("UDC"), a Delaware corporation, acquired U.S. Dental Management, Inc., parent of the Organization. The acquisition was subject to regulatory approval. The acquisition was approved by the Utah Insurance Department on May 29, 1996. The Organization's name was changed to United Dental Care of Utah, Inc. effective February 28, 1996.

Effective September 11, 1998, UDC, parent of the Organization, was acquired by Protective Life Corporation ("PLC"), a Delaware corporation. The Utah Insurance Department approved the acquisition on July 7, 1998.

On October 1, 2000, the issued shares of the Organization's common stock were transferred from UDC to Protective Life Insurance Company ("PLIC"), a wholly owned subsidiary of PLC. Although the immediate parent changed to PLIC, there was no change in the ultimate parent, PLC.

Effective December 31, 2001, the Organization became a wholly owned subsidiary of Dental Care Holdings, Inc., an insurance holding company. Fortes, Inc. owned 100% of Dental Care Holdings, Inc. Fortis (SA/NV) and Fortus N.V. thereby became the ultimate controlling entities of the Organization.

Effective February 4, 2004, Fortis, Inc. was merged with and into Assurant, Inc., with Assurant as the surviving entity. Assurant, Inc. thereby became the ultimate controlling entity of the Organization.

CAPITAL AND SURPLUS

The amended articles of incorporation authorized 25,000 shares of capital stock to be issued with a par value of \$1.00 per share. Ten thousand shares of common stock were issued for total common capital stock value of \$10,000. All shares were issued to the Organization's sole shareholder, Dental Care Holdings, Inc.

There were inconsistencies in the Organization's disclosure of capital stock related information in annual statements filed during the examination period. The authorized shares reported in annual statements filed for 2000 through 2003 were not consistent with the restated articles of incorporation. In 2002 and 2003, the common stock capital reported on the balance sheet was not consistent with the issued shares times the par value per share reported in the interrogatories. The capital stock related information reported in the 2004 annual statement was reported correctly.

The following schedule presents contributions to surplus made since the Organization's inception and the Organization's capital and surplus as of December 31, 2003.

Year	Amount
1995	\$ 2,771
1996	24,716
1998	90,000
1999	94,000
2000	150,000
Total Contributions to Surplus	<u>\$ 361,487</u>
Capital Stock	10,000
Unassigned funds for the year ended December 31, 2003	43,332
Total capital and surplus for the year ended December 31, 2003	<u><u>\$ 414,819</u></u>

STATUTORY RESERVES AND DEPOSIT

The Organization's minimum capital requirement was \$10,000 in accordance with U.C.A. § 31A-8-209(2)(a). The Organization was required to maintain a deposit in an amount equal to its minimum capital plus 50% of .5 times its minimum capital in accordance with U.C.A. § 31A-8-211(3). As of December 31, 2003, the Organization's statutory deposit requirement was \$12,500 and the Organization maintained, through the Utah Insurance Department, a statutory deposit consisting of U.S. Treasury Notes in the amount of \$25,000.

AFFILIATED COMPANIES

Affiliates

Effective December 31, 2003, the Organization was a member of an insurance holding company system, and, as such, was subject to the requirements of U.C.A. § 31A Chapter 16. The ultimate controlling entities were Fortis (SA/NV) and Fortis N.V. The Organization was 100% owned by Dental Care Holdings, Inc, a wholly owned subsidiary of Fortis, Inc. The following illustrates the direct line of control from the Organization to its ultimate controlling entities at December 31, 2003.

Fortis (SA/NV) and Fortis N.V.
 Fortis Insurance, N.V.
 Fortis, Inc.
 Dental Care Holdings, Inc.
 United Dental Care of Utah, Inc.

Effective February 4, 2004, Fortis, Inc. was merged with and into Assurant, Inc., with Assurant as the surviving entity. Assurant, Inc. thereby became the ultimate controlling entity of the Organization.

Transactions with Affiliates

Pursuant to the Administrative Services Agreement by and between Fortis Benefits Insurance Company (FBIC) and the Organization dated January 1, 2002, FBIC agreed to provide administrative services as may be necessary and appropriate for the business operations of the Organization. In return for the services provided, the Organization agreed to pay FBIC the fully allocated costs for such services. The administrative services included, but were not limited to, provider services, member and client services, sales and marketing services, information technology services, financial services, legal services and government relations, human resources, office services and management services.

Pursuant to the Investment Management Agreement by and between Fortis, Inc. (Fortis) and United Dental Care of Utah, Inc. dated January 1, 2002, Fortis agreed to provide investment management services as the Organization may request or Fortis may deem appropriate for the proper administration of the Organization's Investment Portfolio. All investment transactions will be made in conformity with the Organization's Investment and Regulatory Guidelines

Pursuant to a Federal Tax Allocation Agreement effective August 9, 2004, for all tax periods ending on or after the dates listed in the Tax Allocation Agreement, Assurant, Inc. (formerly known as "Fortis, Inc.") and the companies listed on Exhibit C to the Tax Allocation Agreement file a consolidated federal income tax return. The consolidated group's tax liability is allocated among certain regulated entities and other participating affiliates in compliance with U.S. Treasury Regulations Sections 1.1552-1(a) (2), 1.1502-33(d)(1) and 1.1502-33(d)(3), and the Tax Allocation Agreement provides for allocation adjustments in the event of loss and credit carry backs and deficiencies and overpayments determined after an audit.

MANAGEMENT

The bylaws of the corporation state, "the business and affairs of the corporation shall be controlled by, the Board of Directors. The authorized number of Directors of the corporation shall be three (3)." According to Article V of the amended articles of incorporation, "Provided that the Corporation has at least three directors, and that a majority of the directors are residents of the state of Utah, the number of directors may at any time or times, be increased or decreased as provided in the Bylaws." The Organization was not in compliance with U.C.A. § 31A-5-407(2), which requires a majority of the directors to be residents of the State of Utah.

The following persons served as directors and officers of the Organization as of December 31, 2003:

Directors

Michael J. Peninger
Kansas City, Missouri

Principal Occupation

Fortis Benefits Insurance Company
Executive Vice President

Bradley C. Johnson
Minneapolis, Minnesota

Fortis Benefits Insurance Company
Senior Vice President - Dental

Kenneth D. Bowen
Kansas City, Missouri

Fortis Benefits Insurance Company
Vice President & General Counsel

Officers

Position

Michael J. Peninger
Bradley C. Johnson
Floyd F. Chadee
Kenneth D. Bowen
Danny J. Galginaitis
Gary L. Lau

Chief Executive Officer
President
Vice President & Treasurer
Secretary
Vice President
Vice President

All of the above referenced directors continued to serve as of December 31, 2004. All of the above referenced Officers, except Kenneth D. Bowen, continued to serve as of December 31, 2004. Timothy H. Bowden served as secretary as of December 31, 2004.

CONFLICT OF INTEREST

The Organization assumed the Fortis, Inc., procedure for disclosure to its board of directors of any material conflict of interest on the part of its officers, directors or responsible employees on December 31, 2001. The policy of the Organization is to require all directors and management employees of the Organization to sign a conflict of interest statement on an annual basis. All of the directors and senior officers signed a conflict of interest statement for the years 2000, 2001, 2002 and 2003.

CORPORATE RECORDS

The minutes of the meetings of directors appeared to approve and support the Organization's transactions and events. A true and correct copy of the financial examination report of the Organization, as of September 30, 2000, was furnished to each member of the board of directors, as certified by an officer of the Organization.

INTERNAL SECURITY

The Organization does not maintain any insurance coverage in its own name. Instead, it participates in policies maintained by Fortis, Inc. The Organization's fidelity bond coverage amount satisfied the suggested minimum amounts set forth by the National Association of Insurance Commissioners (NAIC).

TERRITORY AND PLAN OF OPERATION

The Organization has a certificate of authority authorizing it to operate as a limited health plan in the State of Utah. The Organization does not operate in any other regulatory jurisdictions.

) The Organization primarily relies on its network of independent agents and brokers to solicit new business. Broker education material describing the various plans available is provided to its agents. The Organization mostly targets groups with over five employees on both a voluntary and employer-paid basis. Its preprinted advertising material is directed to the group audience.

The Organization offers prepaid dental products with a low, medium, and high managed dental care option. There is also a specialty benefit available for members requiring a specialist who is part of the Organization's provider network.

PROVIDER CONTRACTS

As of December 31, 2003, the Organization contracted with 113 dental care professionals to provide services to its enrollees. A majority of these were located within the Wasatch Front metropolitan area. Payment mechanisms in the Organization's provider contracts specified a monthly capitation payment to the provider.

The Organization has provider contracts which include a provision that enrollees not be held liable to the provider for any sums owed by the Organization in the event the Organization fails to pay for dental services.

) The Organization maintains adequate records to determine its regulatory obligations in regards to contracts with providers. It retains current records of all provider licenses. It has procedures that dictate evidence of adequate insurance coverage be maintained. It also has set standards for credentialing and re-credentialing.

The Organization maintains a current provider directory, as required by U.C.A. § 31A-22-617(3)(a).

The Organization had a total of 3,878 enrollees as of December 31, 2003. All enrollees belonged to group plans.

RATES

The Organization provides prepaid dental coverage to its group enrollees and individual consumers through its network of dental providers. The Organization's underwriting function gathers information from questionnaires completed by new groups to assist in setting rates.

Management of the Organization establishes the underwriting policies. Group underwriters administer the group insurance underwriting policies designed for single employer groups. Components of the Company's premium rates include expected capitation paid to providers, factors for administration, and factors for specialty care.

REINSURANCE

) The Organization did not assume or cede reinsurance.

GRIEVANCE PROCEDURES

The Organization has a written procedure through which covered persons may channel complaints, which is included in the certificate of coverage sent to each enrollee at the time of enrollment. The Organization did maintain a complaint register listing all complaints made during the examination period.

The Organization established a Quality Improvement Committee to comply with the requirements set forth in U.C.A. § 31A-8-401 "in matters of policy of the organization and for resolving complaints and grievances initiated by enrollees or providers." The minutes of the meetings of the Quality Improvement Committee were reviewed and no exceptions were noted.

PENDING LITIGATION

The Organization represented that it was not aware of any pending lawsuits as of December 31, 2003.

ACCOUNTING PROCEDURES

As of December 31, 2003, employees of an affiliate of the Organization performed the functions necessary for the Organization's operation. The Organization's records were primarily maintained and processed in Kansas City, Missouri.

The Organization was exempted from filing audited statements with the National Association of Insurance Commissioners (NAIC) for the period under review because its premiums were less than \$1,000,000 and its policyholders less than 1,000.

The Organization's general ledger was maintained on an accrual basis. The examiner footed the Organization's general ledger trial balance and reconciled it to the Balance Sheet, Statement of Revenue and Expenses, and Statement of Changes in Capital and Surplus contained in the December 31, 2003, annual statement.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of December 31, 2003

STATEMENT OF REVENUES AND EXPENSES for the Year Ended
December 31, 2003

STATEMENT OF CHANGES IN CAPITAL AND SURPLUS
October 1, 2000 through December 31, 2003

UNITED DENTAL CARE OF UTAH, INC.
BALANCE SHEET
As of December 31, 2003

ASSETS

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 24,853		\$ 24,853
Cash and short-term investments	389,861		389,861
Receivables for securities	766	766	0
Investment income due and accrued	4,090		4,090
Uncollected premiums	3,227		3,227
Federal and foreign income tax recoverable	367		367
Net deferred tax asset	2,153		2,153
Receivable from parent, subsidiaries and affiliates	6,414		6,414
Prepaid capitation	14,936	14,936	0
	<u>\$ 446,667</u>	<u>\$ 15,702</u>	<u>\$ 430,965</u>

LIABILITIES, CAPITAL, AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$ 5,386	\$ 3,128	\$ 8,514
Premiums received	448		448
General expenses	255		255
Remittance and items not allocated	6,929		6,929
Total liabilities	<u>\$ 13,018</u>	<u>\$ 3,128</u>	<u>\$ 16,146</u>
Common stock			\$ 10,000
Paid in surplus			361,487
Unassigned funds			43,332
Total capital and surplus			<u>\$ 414,819</u>
Total liabilities, capital and surplus			<u>\$ 430,965</u>

UNITED DENTAL CARE OF UTAH, INC.
STATEMENT OF REVENUES AND EXPENSES
For the Year Ended December 31, 2003

	<u>Uncovered</u>	<u>Total</u>
REVENUES:		
Net premium		\$ 441,057
Total revenues		<u>\$ 441,057</u>
EXPENSES:		
Other professional services	\$ 59	\$ 250,905
Total provider	<u>\$ 59</u>	<u>\$ 250,905</u>
General administrative expenses	\$ -	\$ 133,902
Total underwriting deductions	<u>\$ 59</u>	<u>\$ 384,807</u>
Net underwriting gain or loss		56,250
Net investment income earned		4,789
Federal and foreign income taxes incurred		<u>16,205</u>
Net income		<u>\$ 44,834</u>

UNITED DENTAL CARE OF UTAH, INC.
 STATEMENT OF CHANGES IN CAPITAL AND SURPLUS
 October 2000 through December 31, 2003

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Net worth beginning of year	\$ 416,479	\$ 322,333	\$ 306,661	\$ 364,897
Increase in common stock		9,000		
Increase (decrease) in paid in surplus	(184,000)	(9,000)		
Contributed capital	334,000			
Reclass to contributed capital	(150,000)			
Net income (loss)	(52,120)	(37,255)	56,432	44,834
Net deferred income tax		(3,414)	(1,951)	169
Change in non-admitted assets	(42,026)	21,056	3,755	4,919
Cumulative effect of changes in accounting		3,941		
Net worth at end of year	<u>\$ 322,333</u>	<u>\$ 306,661</u>	<u>\$ 364,897</u>	<u>\$ 414,819</u>

NOTES TO FINANCIAL STATEMENTS

CAPITAL AND SURPLUS.

As of December 31, 2003, the Organization's authorized control level risk based capital (RBC) requirement and total adjusted capital (TAC) were determined to be \$26,076 and \$414,819, respectively. The Organization's minimum capital requirement was \$10,000 in accordance with U.C.A. § 31A-8-209(2)(a).

SUMMARY OF EXAMINATION FINDINGS

Items of significance commented on the report are summarized below:

1) As of December 31, 2003, the Organization's authorized control level RBC requirement and TAC were determined to be \$26,076 and \$414,819, respectively. **(CAPITAL AND SURPLUS)**.

2) As of December 31, 2003, the Organization's statutory deposit requirement was \$12,500 and it maintained a statutory deposit in the amount of \$25,000 through the Utah Insurance Department. **(STATUTORY RESERVES AND DEPOSIT)**

3) The Organization was not in compliance with U.C.A. § 31A-5-407(2), which requires a majority of the directors to be residents of the State of Utah. This problem was also disclosed in the prior report of examination. **(MANAGEMENT)**

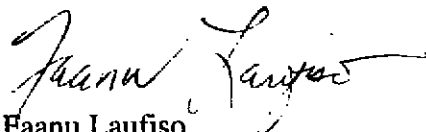
4). Effective December 31, 2001, the Organization became a wholly owned subsidiary of Dental Care Holdings, Inc., an insurance holding company. Fortes, Inc. owned 100% of Dental Care Holdings, Inc. Fortis (SA/NV) and Fortis N.V. thereby became the ultimate controlling entities of the Organization. Effective February 4, 2004, Fortis, Inc. was merged with and into Assurant, Inc., with Assurant as the surviving entity. Assurant, Inc. thereby became the ultimate controlling entity of the Organization. **(HISTORY)**

5). There were inconsistencies in the Organization's disclosure of capital stock related information in annual statements filed during the examination period. The authorized shares reported in annual statements filed for 2000 through 2003 were not consistent with the restated articles of incorporation. In 2002 and 2003, the common stock capital reported on the balance sheet was not consistent with the issued shares times the par value per share reported in the interrogatories. The capital stock related information reported in the 2004 annual statement was reported correctly. **(CAPITAL AND SURPLUS)**.

CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Organization is sincerely appreciated.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Faanu Laufiso', with a long horizontal flourish extending to the right.

Faanu Laufiso
Examiner-in-Charge